JEREZ
ENERGY
INTERNATIONAL INC.

1996 Annual Report

President's Message

Nigeria is Africa's largest oil producing nation, with current production of approximately 2 million barrels per day of light sweet crude oil. The country's Niger Delta is one of the most prolific oil producing regions in the world. Over the past year, Jerez Energy International Inc. has continued to expand its operations in Nigeria, pursuing opportunities for light crude oil and heavy oil exploration and production.

In 1996 the Company concluded a successful exploratory drilling program in the heavy oil belt, drilling ten wells and identifying 1.44 billion barrels of bitumen in place over 16,000 acres in the Lonla area with a further 35.4 million barrels identified over 800 acres in the Lekki area. Jerez plans to drill 20 step-out and exploratory wells in 1997 on the bitumen block. The program will include gathering and analysis of technical information, production testing and laboratory testing needed to conduct thermal recovery operations.

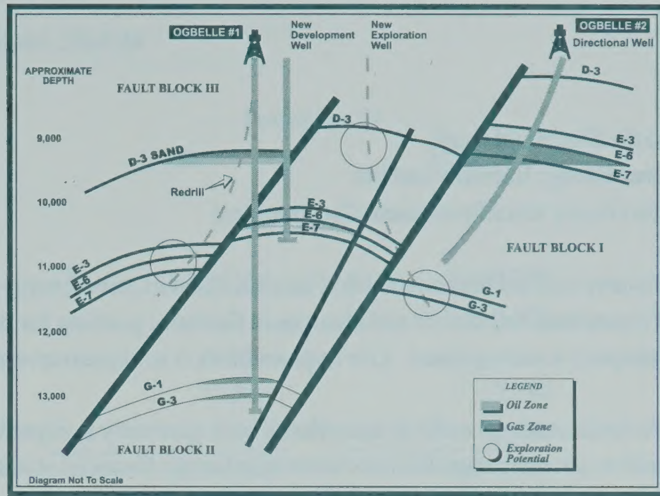
In addition to continuing efforts to develop heavy oils, the Company is now engaged in the prolific light crude oil region near Port Harcourt. In September, 1996, the Company signed a memorandum of understanding with Niger Delta Petroleum of Lagos, Nigeria to develop two existing light oilfields in the Port Harcourt area of south-eastern Nigeria. In January, 1997, both parties signed a joint venture agreement formalizing the partnership. Under the terms of the agreement, Jerez will pay 37.5% of costs to earn a 30% revenue interest in the Ogbelle and Omerelu fields, which have been farmed out by Chevron Nigeria Inc. and Nigerian National Petroleum Corporation. Development plans for 1997 include the re-entry of the discovery well Ogbelle #1 which tested 2685 barrels of oil per day from the E-6 sand. In addition, a development well will be drilled and a five kilometer pipeline and associated production facilities will be installed. The Company is aiming to begin production early in 1998.

Jerez Energy International Inc. believes its operations hold tremendous potential. The Company's diversification into light oil should provide a basis for the achievement of its short-term goals, while the bitumen project continues to offer excellent long-term upside. The Company also continues to evaluate other opportunities on a worldwide basis. I wish to express my sincere appreciation to our Nigerian partners for their invaluable direction and assistance and to our shareholders for their continued support and confidence.

JEFFREY J. SCOTT
President and Chief Operating Officer

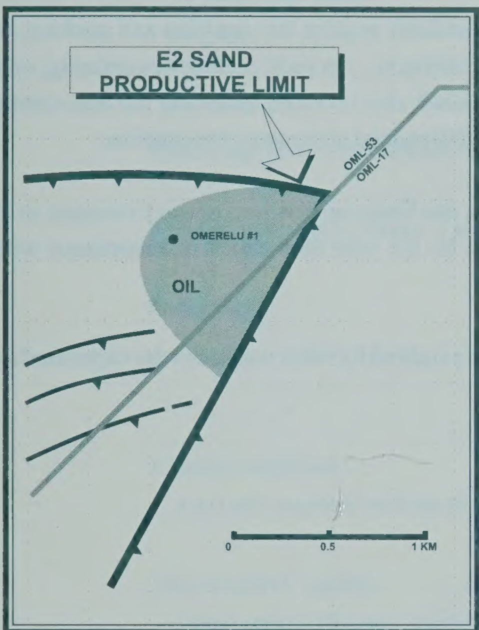
Ogbelle Field

Cross Section Diagram
Showing Known & Possible Reserves



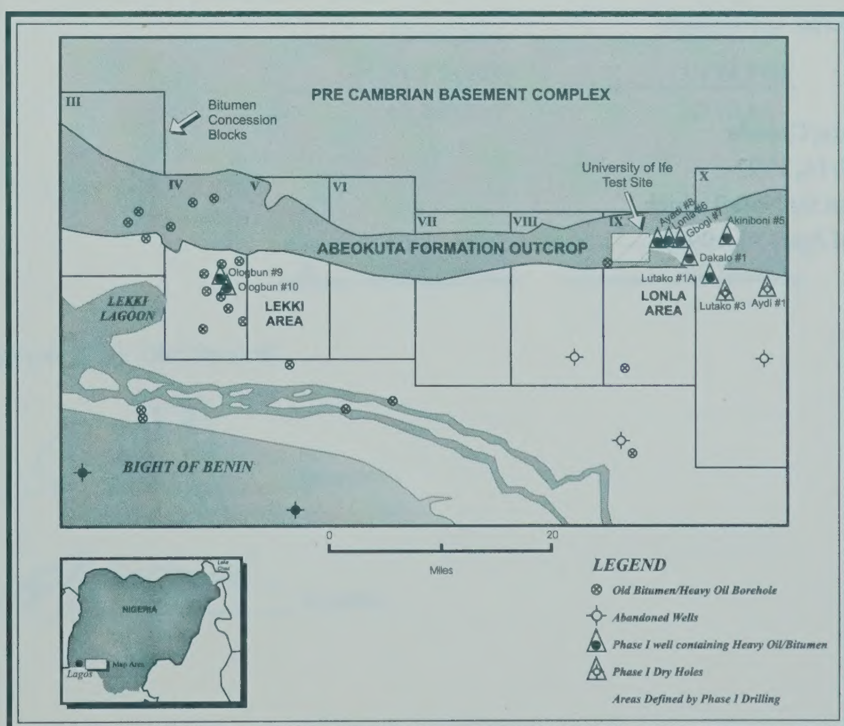
*The **Ogbelle Field** is a faulted anticline which was first discovered in 1981. The test well encountered several economic hydrocarbon bearing sands. Jerez plans to re-enter the Ogbelle #1 well, drill at least one development well and run a 5 km pipeline and commence production. The Company estimates first oil in the first quarter of 1998. Potential recoverable reserve estimates are 40 million barrels of oil plus added exploration potential in offsetting fault blocks and in deeper zones.*

Omerelu Field Outline



*The **Omerelu Field** currently contains one well with several potential hydrocarbon bearing sands. Development plans for this field includes the re-entry of the Omerelu #1 well, installation of production facilities and a pipeline connection into offsetting sales lines. Potential identified from the one well is estimated at 5 million barrels of recoverable oil. The full extent of the field has not been fully defined and will require further seismic review and development drilling.*

Heavy Oil Bitumen Concession



*The Company has confirmed the presence of a substantial **Bitumen** resource in the Lonla and Lekki areas of Nigeria. Jerez has requested a change of status from an exploration license to a production concession. Once a formal concession has been awarded, the Company plans to drill a further 20 test wells as phase 2 to further define the extent of the resource and to identify areas fit for a pilot test site. Phase 3 will be to implement a "Steam Assisted Gravity Drainage" pilot test to confirm economic viability of the project. The Alberta Research Council has agreed to supply the Company with technical support. The Company plans to then bring the project to commercial development. There are already markets for Bitumen in Nigeria and the lands are well positioned to access the substantial export markets.*

AUDITORS' REPORT

To the Shareholders of
Jerez Energy International Inc.
(previously Jerez Investment Corporation):

We have audited the consolidated balance sheet of Jerez Energy International Inc. as at December 31, 1996 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The consolidated financial statements as at December 31, 1995 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 26, 1996.

KPMG

Chartered Accountants

Calgary, Canada
March 14, 1997
(except for Note 9 which
is as of April 30, 1997)

JEREZ ENERGY INTERNATIONAL INC.

Consolidated Balance Sheets

	December 31 1996		December 31 1995	
Assets				
Current:				
Cash and short term deposits (Note 8)	$	2,356,264	$	3,045,227
Accounts receivable		-		10,929
Marketable securities, market value $65,500 (1995 - $30,250)		13,294		13,294
Prepaids		-		1,161
		2,369,558		3,070,611
Petroleum property interests (Notes 2 and 3)		8,372,448		2,193,180
Mineral properties (Notes 2 and 4)		116,001		116,001
Other		67,548		12,803
	$	10,925,555	$	5,392,595
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	$	196,838	$	181,753
Shareholders' equity:				
Share capital (Notes 7 and 8)		12,502,441		6,390,708
Deficit		(1,773,724)		(1,179,866)
		10,728,717		5,210,842
Commitments (Note 3)				
Subsequent event (Note 9)				
	$	10,925,555	$	5,392,595

Approved by the Board:

_______________ Director

_______________ Director

JEREZ ENERGY INTERNATIONAL INC.

Consolidated Statements of Operations and Deficit

	Year ended December 31	
	1996	1995
Interest income	$ 145,135	$ 42,633
Expenses:		
Salaries and benefits	215,172	31,400
Travel and promotion	190,540	94,433
General and administrative	131,894	55,207
Consulting	88,903	250,688
Professional fees	61,846	60,223
Listing, agency fees and shareholder information	28,728	8,902
Depreciation	21,910	-
Abandonment of mineral properties	-	345,663
Foreign exchange	-	6,233
Interest and service charges	-	4,231
	738,993	856,980
Net loss for the year	(593,858)	(814,347)
Deficit at beginning of year	(1,179,866)	(365,519)
Deficit at end of year	$ (1,773,724)	$ (1,179,866)
Loss per share	$ (0.02)	$ (0.06)

JEREZ ENERGY INTERNATIONAL INC.

Consolidated Statements of Changes in Financial Position

	Year ended December 31 1996	1995
Cash provided by (used for):		
Operating activities -		
Net loss for the year	$ (593,858)	$ (814,347)
Add (deduct): Items not requiring a current outlay of cash -		
Depreciation	21,910	-
Abandonment of mineral properties	-	345,663
	(571,948)	(468,684)
Net change is non-cash working capital items	27,175	(60,073)
	(544,773)	(528,757)
Financing activities:		
Issuance of shares for cash	6,111,733	5,281,000
Issuance of shares in exchange for petroleum property interest	-	500,000
Issuance of shares for service	-	94,400
Net decrease in mineral exploration costs payable	-	(128,938)
Advances from related parties	-	3,475
Share issue costs	-	(379,108)
	6,111,733	5,370,829
Investing activities:		
Expenditures on petroleum property interests	(6,179,268)	(2,193,180)
Expenditures on mineral properties	-	(44,715)
Other	(76,655)	(12,803)
	(6,255,923)	(2,250,698)
Increase (decrease) in cash and short term deposits for the year	(688,963)	2,591,374
Cash and short term deposits at beginning of year	3,045,227	453,853
Cash and short term deposits at end of year	$ 2,356,264	$ 3,045,227

JEREZ ENERGY INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1996

1. Nature of Operations

Jerez Energy International Inc. (the "Company"), previously Jerez Investment Corporation, is engaged in the business of international petroleum exploration and development, with a major focus in Nigeria. The recoverability of amounts shown for petroleum property interests and mineral properties is dependant on the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development, and future profitable operations.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation -

The consolidated financial statements include the accounts of the Company and the following subsidiary companies:

Jerez Energy (Barbados) Inc. ("Jerez Barbados")	100%
Jerez Nigeria Limited	100%
Jerez Energy Inc.	100%
Jerez Energy (Cayman) Inc.	100%
Ferret Exploration Ltd.	100%
Oilexco Inc.	100%

(b) Petroleum Property Interests -

The Company follows the full cost method of accounting for petroleum operations whereby all costs of exploring for and developing petroleum reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment and related overhead costs, related to unproved properties and major development projects. Such costs, net of proceeds from minor disposals of property, are accumulated and will be depleted on a country-by-country basis using the unit-of-production method based upon estimated proved net reserves.

Gains or losses are recognized upon the sale or disposition of developed properties when proved reserves of those properties are significant in relation to the Company's total reserves.

Costs accumulated in each cost centre are limited to the future net revenue from estimated production of proved reserves plus the value of unproved properties and major development projects. Costs accumulated in all cost centres are further limited, under the enterprise ceiling test, to the aggregate future net revenues from estimated production of proved reserves plus the aggregate value of unproved properties and major development projects, less the aggregate estimated future general and administrative costs, financing costs and income taxes for all cost centres.

(c) Foreign Currency Translation -

Foreign currency transactions and balances of the Company are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year end rates, non-monetary assets and liabilities at rates prevailing at the transaction dates. Revenues and expenses are translated at the average rate for the year. Gains or losses resulting from transactions designated as hedges of expenditures in foreign currencies are included in the cost of the item being hedged.

(d) Mining Activities -

All costs related to mineral exploration are capitalized on a property-by-property basis. Such costs include mining claim costs and exploration, development and mining related administrative expenditures, net of any recoveries. The Company capitalizes costs incurred to explore and develop its mineral properties until the mineral properties are explored to a point where it has been determined that the mineral properties are capable of being economically developed through assessable exploration results or measurable reserves. Until this determination has been made, in management's opinion, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.

The costs related to a property from which there is production, together with costs of production equipment, will be depleted and amortized on the unit-of-production method based upon estimated reserves as determined by independent consulting engineers. When there is little prospect of future work on a property being carried out by the Company or its partners, the costs of that property will be charged to earnings.

All of the Company's mining activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(e) Restoration Costs -

Estimated costs of restoring the mineral and petroleum properties are accrued and charged to earnings when a decision is made to abandon the properties or on the unit-of-production method when a property commences production.

3. Petroleum Property Interests
Nigeria, West Africa

		1996		1995
Acquisition costs	$	602,574	$	602,574
Deferred exploration and development		4,806,421		518,322
Exploration equipment		2,963,453		1,072,284
	$	8,372,448	$	2,193,180

During 1996, a foreign exchange loss of $277,471 was included in petroleum property interests.

(a) Heavy Oil -

During the year ended December 31, 1995, Jerez Barbados acquired a participating interest in a 468,500 acre onshore heavy oil/bitumen concession (Concession II) located in the Benin Basin region of South-Central Nigeria, West Africa. Under the terms of the acquisition agreement, the Company issued 1,000,000 common shares, at $0.50 per share, and paid $75,000 U.S. to Collier Venture Ltd. to acquire Collier's joint venture working interest. In accordance with the terms of the joint venture agreement, the Company is to provide technical expertise to the operator, Rofem Industries Inc. and is initially responsible for the costs of exploration and development. Revenue and costs from the sale of heavy oil/bitumen will be distributed, on a before tax basis, as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Costs	Revenue
i) Before Payout		
Jerez Barbados	100 %	70%
Rofem Industries Inc.	0%	10%
Government of Nigeria	0%	20%
ii) After Payout		
Jerez Barbados	75%	60%
Rofem Industries Inc.	25%	20%
Government of Nigeria	0%	20%

As specified in the agreement, Jerez Barbados completed a work program which includes geophysical surveys, drilling and completing five test wells, conducting geological and geochemical studies, and conducting studies into the feasibility of extracting bitumen from the concession before July 31, 1996 as required. During 1996, Jerez Barbados was deemed to have complied with their work obligations when it had expended $1,000,000 U.S. on the above work obligations, thereby earning its interest of Rofem's Concession II.

It is the intention of the Company and the Rofem Industries Inc. to establish a separate entity which will conduct business operations in road and other construction activities utilizing bitumen. The parties have agreed that all revenues and costs related to these operations will be shared, on an after tax basis, as follows:

Jerez Barbados	25%
Rofem Industries Inc.	75%
	100%

(b) Conventional Crude Oil -

In February 1997, Jerez Nigeria Limited, signed a joint venture agreement with Niger Delta Petroleum Resources Limited (NDPR), an indigenous Nigerian company, for participation in the development of two oilfields which are being farmed out by the Nigerian National Petroleum Corporation (NNPC) and Chevron Nigeria Limited (Chevron). Jerez acquired a participating interest for exploration and development of the Ogbelle oilfield in OML54 as well as a right of first refusal for an equitable interest in the Omerelu oilfield in OML53. Jerez has agreed to pay 37.5% of costs to earn a 30% interest less a 5.25% overriding royalty and a 20% net profits interest.

4. Mineral Properties

		1996		1995
Acquisition Costs:				
Balance, beginning of year	$	43,081	$	123,081
Abandoned during the year		-		(80,000)
Balance, end of year		43,081		43,081
Exploration and development:				
Balance, beginning of year		72,920		293,868
Costs incurred during the year		-		44,715
Abandoned during the year		-		(265,663)
Balance, end of year		72,920		72,920
	$	**116,001**	$	**116,001**

		1996		1995
Carat	$	72,294	$	72,294
Snare Lake		43,707		43,707
	$	**116,001**	$	**116,001**

(i) *Carat*:

Pursuant to a joint venture agreement between the Company and Tyler Resources Inc. ("Tyler"), the Comp holds a 33 1/3% interest in the Carat properties in the North West Territories.

(ii) *Snare Lake Prospect*:

In August of 1993, the Company agreed to acquire a 15% interest in 80 mineral claims covering 191,472 a in the Northwest Territories. The agreement required cash payments of $43,081. The properties have not l developed to date.

5. Related Party Transactions

(a) Due to Related Parties -

At December 31, 1996 there was an accrued liability of $30,000 (1995 - $57,655) owed to a company direc for consulting services rendered.

(b) Management Fees and Legal Services -

Three Company Directors and a company controlled by a Company Director have provided financial and corporate services during the year ended December 31, 1996 for the amount of $36,071 (1995 -$108,270).

6. Income Taxes

(a) The Company and its Canadian subsidiaries have accumulated losses for Canadian income tax purposes of approximately $1.1 million and losses for United States income tax purposes of approximately $70,000, the related benefits of which have not been recognized in the consolidated financial statements. Unless sufficient taxable income is earned by the Company and its subsidiaries these losses will begin to expire in 1997.

(b) The Company also has available for deduction, at annual rates as provided by the Canadian Income Tax Act, in determining taxable income of future years, $931,664 of mineral exploration expenditures.

(c) A Company subsidiary, Jerez Barbados, has expended $7,769,874 to December 31, 1996 on equipment and other costs related to the Nigerian petroleum properties. The Nigerian petroleum properties will be subject to Nigerian taxation, the form of which is yet to be determined by the Nigerian Government. The Company anticipates Nigerian taxes to be in the form of a royalty, a profits tax or some combination of both.

7. Capital Stock

(a) Authorized -

The authorized share capital of the Company consists of an unlimited number of common and preferred shares.

(b) Common shares issued -

	Number of Shares	Amount
December 31, 1994	**10,021,025**	**894,416**
Issued for cash on exercise of stock purchase options	680,000	158,000
Issued for cash on exercise of stock purchase warrants	1,105,000	323,000
Issued for cash by private placement	1,000,000	300,000
Issued in exchange for interest in Nigerian Concession (See note 3)	1,000,000	500,000
Issued for cash by private placement	6,000,000	4,500,000
Issued in exchange for debt	160,000	94,400
Share issue costs	-	(379,108)
December 31, 1995	19,966,025	$ 6,390,708
Issued for cash on exercise of stock purchase options	650,000	203,400
Issued for cash on exercise of stock purchase warrants	6,058,333	5,908,333
December 31, 1996	26,674,358	$ 12,502,441

(c) Outstanding Stock Purchase Options and Warrants -

As at December 31, 1996 the Company had outstanding stock purchase options and warrants as follows:
Directors, officers and consultants incentive stock purchase options granted

	1996	
Expiry Date	Number of Shares	Exercise Price Per Share
April 28, 2000	385,000	$ 0.47
November 27, 2000	890,000	1.04
June 26, 2001	855,500	0.62
August 15, 2001	50,000	0.70
October 24, 2001	100,000	0.90
December 6, 2001	355,000	1.15
	2,635,500	

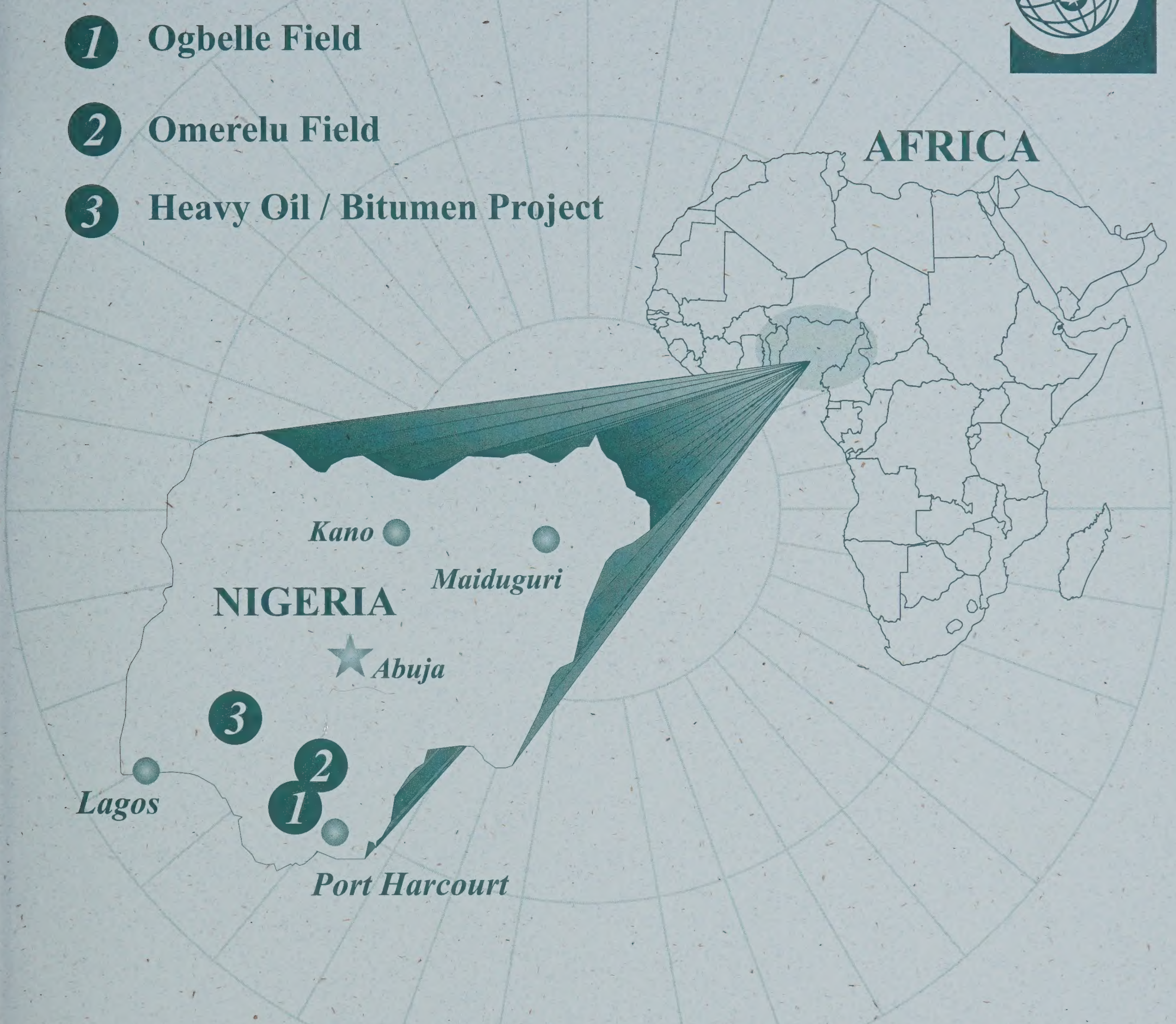
8. Financial Instruments

Cash and short term deposits as at December 31, 1996 include U.S. $618,775. The fair value of financial assets and liabilities as at December 31, 1996 and 1995 is approximately equal to the carrying value.

9. Subsequent Event

Exercise of Incentive Stock Purchase Options -

As of April 30, 1997, an additional 419,500 incentive stock purchase options had been exercised, for net proceeds of $325,480.



Overview

Jerez is actively involved in international exploration and development of both light and heavy crude oils, with a current focus in Nigeria. The Company has participated in exploration and development joint venture opportunities with pro-active indigenous Nigerian corporations, including **Niger Delta Petroleum Resources Inc., Rofem Industries Inc. and Tar Sands International Inc.** These indigenous companies and the programs that they represent are the cornerstone of Jerez's presence in Nigeria. Participating with these companies gives Jerez access to one of the best oil basins in the world under very favorable economic terms. In addition, the indigenous companies contribute a significant infrastructure, including highly educated and motivated individuals with local knowledge and political influence. Jerez is proud to be part of the ongoing initiatives that enable indigenous companies to participate in and develop Nigeria's petroleum resources.

Corporate Information

Officers & Directors

Frank P. Elliott
Chief Executive Officer

Jeffrey J. Scott
President & Chief Operating Officer

David J. Halpin
Controller & Chief Financial Officer

Edward Tapuska
Corporate Secretary

Reni Folawiyo
Director

William E. Grafham
Director

Robert R. Hobbs
Director

Head Office

Suite 400, 708-11th Avenue S.W.
Calgary, Alberta T2R 0E4
Telephone (403) 264-5556
Facsimile (403) 264-7455

Banker

Canadian Imperial Bank of Commerce
Calgary, Alberta

Auditors

KPMG
Chartered Accountants
Calgary, Alberta

Evaluation Engineers

Chapman Petroleum Engineering Ltd.
Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust Company of Calgary
Calgary, Alberta

Legal Counsel

Ogilvie & Company
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange - "JRZ"

Director Profiles

Frank P. Elliott Mr. Elliott, a Director of the Corporation since July 8, 1996, is currently associated with Abacan Resource Corporation as a geological consultant. A graduate of the University of Calgary, he began his career in 1968 as a geological technician with Husky Oil in Calgary. He has been employed as a geologist with Bralorne Resources, Turbo Resources and other independent exploration companies. His geological experience includes North America's Western Sedimentary Basin as well as Nigeria and the West Coast of Africa.

Jeffrey J. Scott Mr. Scott has been President and a Director of the Corporation since May 15, 1995. A graduate of the University of Calgary, he has been active in the oil and gas industry since 1979. Mr. Scott is also the Vice-President of Operations of Postell Energy Co. Ltd., a private Canadian oil and gas company.

Reni Folawiyo Ms. Folawiyo, a Director of the Corporation since June 23, 1995 graduated from law school at the University of Warwick in Coventry, England and is an associate partner practicing in the area of corporate law with the Lagos firm of Lateef Adegbite & Co., an international law firm engaged in commercial, oil and gas, and general practice. She is also a member of various international law associations.

William E. Grafham Mr. Grafham, has been a Director of the Corporation since May 15, 1995, and was the Chief Executive Officer of the Corporation from May 23, 1995 to December 5, 1996. Mr. Grafham is currently a director and officer of a number of Canadian public companies and is also the sole director and shareholder of Arizona Corporate Management Inc., a company which provides corporate and administrative services to publicly-listed companies. Previously, Mr. Grafham was the founder of several resource companies that represented foreign limited partnerships, and prior to that was an officer and director of a large Canadian securities firm.

Robert R. Hobbs Mr. Hobbs was appointed a Director of the Corporation on March 26, 1997. Mr. Hobbs is currently President of R.R. Hobbs Financial Consultants Ltd., a private financial consulting firm formed in 1983. Mr. Hobbs is a Certified Management Accountant with post graduate certificates in computer science from the University of Calgary. Mr. Hobbs has been active in the oil and gas sector for 25 years and has extensive international experience. In 1983, Mr. Hobbs founded Danoil Energy Ltd., an Alberta Stock Exchange listed public company and has extensive experience in financial administration and reporting, corporate planning and public relations. Mr. Hobbs is also a director of Niko Resources Limited, Peregrine Oil and Gas Ltd. and Plexus Energy Ltd., public companies listed on the Alberta Stock Exchange that are active in domestic and foreign oil and gas operations.